

OUTLOOK



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2008 Legislative Session

SDRS Board to Propose Increase in Retirement Benefit Formula

For the first time in eight years, the SDRS Board of Trustees will bring a recommendation to the Legislature for an increase in the system's retirement benefit formula. Part of a package that includes two other major initiatives, the improvement would increase benefits for Class A and Class B members. The new formula would apply to all members, active and retired, and will cover SDRS credited service through June 30, 2008.

"Investment earnings make benefit improvements possible," says SDRS Trustee Dr. James Hansen. "In the past five years earnings have averaged nearly 14 percent, and that's over six percent more per year than we anticipate. In just the past year, the SDRS trust fund grew by \$1.1 billion, so we're confident that we can make a significant benefit improvement and still fully protect the system even if the markets retreat."

Even with healthy reserves in the trust fund, the Board



has added a safeguard in the legislation. In the unlikely event that investment markets perform poorly for a number of years and the investment earnings are not sufficient to maintain the funding necessary to support the benefits, the proposed benefit improvement could be reduced or even eliminated to protect SDRS' fiscal soundness. While a reduction is improbable, the safeguard adds an additional

level of protection to the system — a comfort to the Board and the members of the system who haven't forgotten the collapse of the markets in 2001 and 2002.

Supplemental Pension Benefit

The second major component in the legislative package is a proposal to establish an optional supplemental pension benefit for members.

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An Overview of SDRS' Proposed Legislation

SDRS will be proposing seven pieces of legislation to the 2008 legislature. The legislation includes an increase in the retirement benefit formula, the creation of a supplemental pension benefit and the

initiation of a process to make enrollment in the Supplemental Retirement Plan (SRP) automatic for new SDRS members. SDRS' proposed legislation is summarized below.

Improvement in the Retirement Benefit Formula – House Bill 1019

Class A Members Current Provision

- 1.625% of final compensation for years of service before July 1, 2002, plus
- 1.55 % of final compensation for years of service after July 1, 2002

Proposed Change*

- 1.7% of final compensation for years of service before July 1, 2008, plus
- 1.55 % of final compensation for years of service after July 1, 2008

*Class B members and members retired or retiring under the Class A alternate formula will receive comparable increases.

Supplemental Pension Benefit – House Bill 1021

No Current Provisions

Proposed Provisions

- Allow the transfer of dollars from the SRP and SPP into the SDRS Trust Fund
- Convert the member's transferred dollars into a guaranteed lifetime benefit to be paid monthly
- Supplemental Pension Benefit dollars to be managed by the South Dakota Investment Council as part of the SDRS trust fund

Contested Case Provision – House Bill 1022

Current Provision

- The SDRS board hears and rules on all administrative appeals related to the system's disability and pension provisions.

Proposed Change

- Contested cases would be heard and ruled upon by a professional hearings examiner

Automatic Enrollment in SRP – House Bill 1020

Current Provisions

New members are not enrolled in the SRP unless they make a specific request

Proposed Change

SDRS would be allowed to develop program provisions that would

- offer employers the option of participating in the program
- limit automatic enrollments to all new hires of participating employers
- set the initial amount of a small, monthly contribution to the SRP
- allow automatically enrolled participants to withdraw from the plan within 90 days and receive a full refund of their contributions, regardless of market performance

Clarification of the Term “Child or Children” – House Bill 1024

Current Provision

- SDRS family benefits paid on behalf of a child cease when the child turns 18 years of age, even though the child may still be a dependent while finishing high school
- The existing definition of “child or children” that is related to minor children must be applied to adult children in lump-sum payments after a member’s death

Proposed Change

- Expand the SDRS definition of a minor child so that it applies until the child is 19 years of age
- Adopt the Uniform Probate Code definition of “child” to identify adult “children” for lump-sum payments after a member's death

Mitchell Firefighters – House Bill 1025

Current Provision

- A few Mitchell firefighters receive a 3 percent simple cost of living increase compared to all other SDRS members who receive a compounded rate of 3.1 percent

Proposed Change

- Increase the cost of living allowance for all Mitchell firefighters to a compounded rate of 3.1 percent

General Clean-up Legislation – House Bill 1023

This is an SDRS bill to clarify, coordinate and/or bring provisions of the system, the plan or program into compliance with federal law



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At retirement or thereafter, this elective benefit would allow members to convert dollars from their investment in the Supplemental Retirement Plan (SRP) into a guaranteed, monthly, lifetime SDRS benefit. "By using dollars from personal savings in the SRP, members can boost their SDRS monthly income and do it for life, guaranteed," says Board member Laurie Gustafson.

Board reactions to the benefit show that it may be especially attractive to members who are concerned about paying for increased health care costs or long-term care or about possible reductions in future Social Security benefits.


Automatic Enrollment in SRP

The last key piece of legislation requests permission from the Legislature to allow SDRS to establish a program that would automatically enroll new hires into the SDRS' Supplemental Retirement Plan. The program would encourage new participants to begin saving for their future and become familiar with the process of investing through the SRP. If approved by the Legislature, SDRS could

begin developing program provisions as early as 2009 that would

- offer employers the option of participating in the program
- limit automatic enrollments to all new hires of participating employers
- set the initial amount of a small, regular contribution to the SRP
- allow automatically enrolled participants to withdraw from the plan within 90 days and receive a full refund of their contributions, regardless of market performance

Other Legislation

In addition to the three major proposals, SDRS will also submit recommendations to remove the Board of Trustees from the administrative appeals process, clarify SDRS' legal definitions of child and children, bring the COLA for Mitchell retired firefighters in line with other retired members' and correct minor inconsistencies and technical errors in SDRS statutes. 

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